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Message Text

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13
ACTION EA-14

INFO OCT-01 ISO-00 AID-20 CIAE-00 COME-00 EB-11 FRB-03

INR-11 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SP-03

CIEP-03 LAB-06 SIL-01 OMB-01 NSC-07 SS-20 STR-08

CEA-02 DRC-01 DODE-00 PM-07 H-03 L-03 PA-04 PRS-01

USIA-15 /165 W
---------- 016174
R 090711Z AUG 74
FM AMEMBASSY CANBERRA
TO SECSTATE WASHDC 3845
INFO AMCONSUL BRISBANE
AMCONSUL MELBOURNE
AMCONSUL PERTH
AMCONSUL SYDNEY

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E.O. 11652: N/A
TAGS: EFIN, EINV, AS
SUBJECT: EFIN: GOA CUTS VDR RATE

A. CANBERRA 5002
B. CANBERRA A-109 JUL 3, 1974

1. TREASURER CREAN ANNOUNCED AUGUST 7 THAT VARIABLE DEPOSIT REQUIREMENT (VDR) FOR INTEREST-FREE DEPOSITS ON OVERSEAS BORROWINGS WITH MATURITIES EXCEEDING TWO YEARS HAS BEEN REDUCED FROM 25 TO 5 PERCENT. RATE WAS PREVIOUSLY REDUCED FROM 33 1/3 TO 25 PERCENT ON JUNE 25 (REF B, ITEM-). RESTRICTIONS ON SHORTER TERM FOREIGN BORROWINGS CONTINUE.

2. REDUCTION OF VDR TO VIRTUALLY NEGLIGIBLE LEVEL IS APPARENT REACTION TO WORSENING BALANCE OF PAYMENTS (REF A) MORE THAN TO LOCAL LIQUIDITY SQUEEZE, WHICH
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SHOULD EASE SHORTLY DUE TO CYCLICAL FACTORS. IN FY 1974,

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AUSTRALIA RAN ITS FIRST BOP DEFICIT IN SEVEN YEARS,
A$678 (US $1,006) MILLION ON NET MONEARY MOVEMENTS
BASIS. CUT IN BDR HAS BEEN WIDELY PREDICTED IN
RECENT WEEKS. GOA EVIDENTLY DECIDED TO RETAIN REQUIRE-
MENT AT MINIMAL RATE RATHER THAN ABOLISH IT ENTIRELY
TO PRESERVE FUTURE OPTIONS TO INCREASE IT AGAIN SHOULD
CIRCUMSTANCES WARRANT.

3. EMBASSY AND CONSULATES GENERAL SYDNEY AND MELBOURNE
HAVE DISCUSSED ATNTICPATED IMPACT OF VDR CUT ON AUSTRALIA'S
FUTURE CAPITAL INFLOW WITH VARIOUS BUSINESSMEN,
PARTICULARLY U.S. BANKERS. COMMENTS MADE COVER FAIRLY
WIDE RANG EOF PREDICTIONS, BUT BROAD CONSENSUS EXISTS
THAT NO MASSIVE CAPITAL INFLOW WILL OCCUR IN SHORT TERM. OTHER
MAJOR POINTS MADE INCLUDE: (A) LOCAL AND OVERSEAS
CONDITIONS HAVE CHANGED SIGNIFICATLY SINCE VDR FIRST
IMPOSED 20 MONTHS AGO (SHORTLY AFTER LABOR GOA ELECTED),
WITH CLIMATE FOR FOREIGN INVESTMENT BECOMING LESS
FAVORABLE IN AUSTRALIA WHILE OVERSEAS LENDERS ARE LESS
WILLING AND ABLE TO PLACE MONEY HERE. (B) VDR CUT
IS EFFORT BY GOA TO POSTPONE ANY DEVALUATION OF
AUSTRALIAN DOLLAR. PROSPECT OF DEVALUATION WITHIN
NEXT TWO YEARS WILL ADD TO BORROWERS' CAUTION. (C)
CONTINUANCE OF BARRIERS TO SHORT-TERM (UNDER TWO YEARS)
FOREIGN BORROWING WILL PRECLUDE "FLOOD" OF CAPITAL
INFLOW. (D) CERTAIN LARGE SCALE DEVELOPMENT PROJECTS
(PENDING ALWEST ALUMINA-BAUXITE PROJECT NEAR PERTH
MOST COMMONLY CITED EXAMPE) WILL BECOME MORE
ECONOMICALLY FEASIBLE, WHICH COULD EVENTUALLY LEAD
TO SIZEABLE INCREASE IN CAPITAL INFLOW. HOWEVER
VDR HAS TYPICALLY BEEN ONLY ONE OF SEVERAL OBSTACLES
TO LAUNCHING NEW PROJECTS, AND CUTTING IT ALONE WILL
PROBABLY NOT BRING ANY ONE OF THEM TO FRUITION. (E)
BUSINESS CONFIDENCE IN LOCAL ECONOMIC SITUATION
(PARTICULARLY GOA'S ABILITY TO COPE WITH INFLATION
AND INDUSTRIAL RELATIONS PROBLEMS) REMAINS UNCERTAIN.

4. EMBASSY COMMENT: WHILE VDR CUT WILL VIRTUALLY
ELIMINATE COST PRENALTY FOR LONG-TERM BORROWING ABROAD
RATHER THAN IN AUSTRALIA, WE DOUBT THAT IT WILL BE
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SUFFICIENT ACTION OF ITSELF TO INDUCE MAJOR CAPITAL
INFLOW. PERHPAS GREATEST SIGNIFICANCE OF THIS STEP
IS TO REVEAL GOA'S SENSITIVITY TO CHANGING BOP
SITUATION.
HARROP

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INFLATION, FINANCIAL CONTROLS, INTEREST RATES, FINANCIAL DATA, CAPITAL FLOWS
Control Number: n/a
Copy: SINGLE
Draft Date: 09 AUG 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: cunninfx
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974CANBER05203
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740218-0233
From: CANBERRA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740861/aaaacams.tel
Line Count: 112
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: cunninfx
Review Comment: n/a
Review Content Flags:
Review Date: 08 JUL 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <08 JUL 2002 by shawdg>; APPROVED <27 FEB 2003 by cunninfx>
Review Markings:

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US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: EFIN: GOA CUTS VDR RATE A. CANBERRA 5002
TAGS: EFIN, EINV, AS
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

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